

REVIEW OF METHODS FOR MEASURING THE EFFECTIVENESS OF NON-PROFIT ORGANIZATIONS

Aneta MICHALAK

Silesian University of Technology, Faculty of Organization and Management; aneta.michalak@polsl.pl,
ORCID: 0000-0002-0935-6674

Purpose: The aim of the research undertaken in the article is to try to find an answer to the question whether, despite the fact that non-profit organizations are not intended to be commercially profitable, it is possible to assess the effectiveness of their activities.

Design/methodology/approach: The article consists of a literature study that reviews publications on methods for measuring the effectiveness of non-profit organizations. For the literature analysis, publications relating directly or indirectly to the topic of operation of non-profit organizations and measuring their effectiveness were used. The literature on this topic is not extensive, compared to publications dealing with the issue of measuring efficiency in commercial enterprises. In addition to the analysis of individual methods of measuring the effectiveness of non-profit organizations indicated in the literature, a comparison of the strengths and weaknesses of each of the proposed solutions was made.

Findings: During the research, it was found that there are methods of measuring effectiveness, which differ significantly from traditional methods used to evaluate business activities, and can be used in the evaluation of non-profit organizations.

Research limitations/implications: Based on the research conducted, implications for the future can be identified. They may concern the use of selected methods to assess the effectiveness of selected non-profit organizations.

Practical implications: Practical implications of the obtained results may concern the use of the presented methods of assessing effectiveness by managers and supervisors of non-profit organizations.

Social implications: The use of the methods presented in the article for assessing the economic efficiency of non-profit organizations will allow potential donors to direct support to organizations that use the accumulated capital most effectively. However, it does not have to be efficiency measured in financial terms.

Originality/value: The article indicates what methods of assessing effectiveness can be used in the case of non-profit organizations. The value of such research is the ability to evaluate the activities of non-profit organizations without having to take into account financial aspects.

Keywords: performance assessment, non-profit organizations.

Category of the paper: Research paper.

1. Introduction

Non-profit organizations belong to the so-called the "third sector" in the socio-economic system of democratic countries with a free market economy. The first sector is usually public administration. The second sector consists of commercial enterprises. The third sector includes other organizations, both state, private and local government, which include foundations, associations, political parties and trade unions. Third sector entities are very diverse, but their common feature is that they do not operate for profit, and their activities are intended to serve the social good (Szymoniczek, 2014). Therefore, these types of organizations are called non-profit or non-governmental organizations (Blicharz, 2012). The history of such organizations dates back to antiquity. Originally, it manifested itself as sharing between the rich and the poor or supporting the so-called patrons of the development of certain areas of life, e.g. art, science, literature. Such activity was described in the past as philanthropic activity (Bogacz-Wotanowska, 2016). Some of the oldest non-profit organizations in Poland, still operating today, are the Polish Red Cross and the Polish Scouting Association.

Each socio-economic sector performs specific functions in society. Non-profit organizations also perform many functions, making them essential for the good and efficient functioning of the entire country. The most important functions of non-governmental organizations include (Szymkiewicz et al., 1998):

- representing social interests, recognizing society's needs and finding ways to best meet them,
- influencing the activities of entities from the other two sectors: public and private entrepreneurs,
- finding unmet needs and taking initiative where the public sector often remains helpless and the private sector is not motivated to act in the form of the promise of profit,
- stimulating innovative changes in socio-economic life.

Non-profit organizations, despite the basic assumption that they are not profit-oriented organizations, must have a source of financing for their activities. They often consume many resources of various types, including financial resources. Financing non-profit organizations is a very complex topic. In Poland, there are many sources of obtaining funds by non-profit organizations, but some of them remain a source only theoretically, because in practice they are basically unused. Financing sources can be divided into three main groups:

- self-financing – financing activities from membership fees or own business activity. However, in the case of running a paid business activity, there is a requirement to balance the revenues and costs of a given activity (Adamiak et al., 2015),

- funds from the private sector - most often taking the form of cash donations, donations in kind, collections or sponsorship (Schimanek, 2015), although it is also possible to obtain debt financing in the form of loans, bank credits, etc.
- funds from the public sector - related to entrusting the performance of all or part of specific public tasks, investment subsidies, civic budget, granting loans (Kurleto, 2008).

2. Specificity of effectiveness in non-profit organizations

Efficiency is a broad concept that is defined and understood differently in science and economic practice. This may not be a problem in everyday life, but in scientific discourse it is important to clearly understand this concept. The PWN electronic dictionary states that effective means: giving good results, efficient or significant, real (Słownik Języka Polskiego, 2023). Efficiency can be defined as the ratio between the value of expenditure incurred and the value of results obtained (Majowska, 2012).

Efficiency can be assessed in various contexts, but from the point of view of the topic at hand, it is important to justify the need to examine effectiveness in specific entities, such as non-profit organizations. Efficiency in the non-profit sector is measured primarily by the goal (Dyczkowski, 2016):

- determining whether the costs incurred were absolutely necessary and whether they could not have been lower and whether they were justified in relation to the result,
- confirming the credibility of the organization's activities in the eyes of potential donors,
- improving the organization's operations,
- consolidating a positive image and trust among stakeholders,
- proving that the organization's mission is implemented appropriately, competing with other entities.

Measuring the effectiveness of non-profit organizations should meet the basic conditions defined by M. Hudson, such as (Hudson, 1997):

- should contain objective indicators indicating the real change that has occurred thanks to the organization's activities, for example the number of people trained in a given issue,
- should enable comparison of costs and results of individual activities, to realistically assess whether the funds have been appropriately allocated,
- should measure the quality of implemented activities or services so that it can be improved.

3. Social Return on Investment (SROI)

One of the methods for assessing the effectiveness of non-profit organizations, recommended in the literature on the subject (Juraszek-Kopacz, Tyrowicz, 2008) is Social Return on Investment (SROI). This indicator is a variation of the Return of Investment (ROI) indicator used to measure efficiency in commercial enterprises. The SROI indicator is calculated as the quotient of the total value of the project (i.e. the current economic value of the project plus its current social value) and the value of expenditure incurred on the project:

$$SROI = \text{value of the project} / \text{value of expenditure incurred on the project}$$

where:

$$\text{venture value} = \text{current economic value of the venture} + \text{current social value}$$

SROI estimation begins with determining the economic value of a given project. For this purpose, the costs of the project itself should be excluded from the total organizational costs. However, the costs of the project include part of the organization's fixed costs. If the project is extended over a period of several years, appropriate forecasting methods should be used. The economic value of the project is calculated for each year of its duration as a result of the following action:

$$\text{economic value of the project} = \text{net profit} + \text{depreciation (loss of value of resources, if any)} - \text{investments} - \text{loans and repayable grants}$$

The results obtained in this way should still be subjected to the discounting process (Juraszek-Kopacz, Tyrowicz, 2008).

In the process of calculating social value, there is a need to determine the following four factors:

- size of the target group,
- savings achieved per person from the target group,
- increase in tax revenues per person from the target group,
- the amount of costs incurred for the target group (care, training, etc.).

Determining the number of beneficiaries is simple if the organization conducts activities aimed at a clearly defined target group, for example, it runs a shelter for the homeless. Then we know exactly how many people benefited from such help. When conducting other activities, e.g. social campaigns, their possible impact should be assessed. The savings achieved and the increase in tax revenues are also easiest to estimate when it comes to organizations undertaking specific activities, for example activating the unemployed. For many others, this is subject to high error. Social costs, which also need to be estimated, include costs that cannot be reported in accounting. They are related to the following three phenomena:

- crowding effect - thanks to external support, a non-governmental organization can offer products so attractive that it becomes a competition for commercial companies ("pushing" them out of the market), which may consequently lead to their bankruptcy or decisions about layoffs,
- the effect of pointless cost - it means supporting activities that would also be carried out without external support, because, for example, they are attractive to commercial enterprises,
- substitution effect - changing existing solutions to others related to receiving financial support, for example employing disabled people instead of able-bodied people in order to reduce the costs of social security contributions (Wasiela, 2013).

The above-mentioned phenomena mean that projects that may seem effective from the point of view of the organization may not be so on the scale of society (Moroń, Klimowicz, 2016). When estimating the value of savings, you must always take into account possible alternatives.

The assessed economic and social value is compared with the amount of expenditure allocated for the task, obtaining the social rate of return. The result shows how much profit each monetary unit invested in the project brings to society.

4. Measures of organizational success

Another group of specific performance measures that can be used in the case of non-profit organizations are measures of organizational success. They use opinions about the organization expressed by its audience, other organizations or society more generally. According to the assumptions of these assessment methods, success can be said when an organization (Krzelowska, 2008):

- can raise funds,
- has a recognizable name,
- has many volunteers motivated to act,
- maintains good relations with many media,
- has a large number of "customers",
- is able to obtain funds from the European Union,
- conducts transparent activities,
- has social trust,
- carries out the mission in an effective way,
- increases the number of its branches.

The use of this measure of the effectiveness of non-profit organizations requires conducting surveys or interviews among the organization's environment, including its direct stakeholders.

5. Participatory action research (PAR)

Participatory action research (PAR) is a method aimed at solving practical social problems in a scientific way while involving in this process everyone affected by a given problem (Ćwiklicki, 2014). It can be carried out in three ways: by establishing tripartite committees in which employees, management board and other stakeholder groups are represented, through research conferences or dedicated workshops (Chrostowski, 2011). First of all, in the PAR method, a diagnosis of the organization should be carried out. A properly prepared questionnaire can be used for this purpose. Already at this stage, all interested parties, both researchers and respondents, should be involved in its construction. The tool created in this way describes a certain ideal of the organization in key areas such as: finances, transparency, identification of members with the organization, or trust in leaders. People involved in the study assess how much their organization deviates from or meets a given pattern. On this basis, a report is created which shows what the entity has the biggest problems with and what areas it copes with best. The study should be repeated after a certain period to check whether the changes introduced are heading in the desired direction (Kafel, 2016).

6. Prove it!

"Prove it!" is a method created by the New Economics Foundation to better understand the scale of an organization's impact. This measure is intended primarily for organizations conducting small or medium-sized projects whose main goal is change in local society introduced by its members (New Economics Foundation, 2023). An important feature of the "Prove it!" method is the involvement of all participants in creating indicators for measuring the effects of the project, by means of which the change caused by the implementation of the project will be measured. The indicators are included in the project measurement survey, the results of which allow us to assess whether the assumed goals have been achieved and to what extent. This is especially true of goals related to social and human capital, i.e. changes in the relationships between community members, changes in self-assessment of their capabilities and perception of their own quality of life (Juraszek-Kopacz, Tyrowicz, 2008).

7. “U²” method – prove and improve

"U²" - Prove and Improve is a method consisting of several basic stages. First, the organization's mission and goals are reviewed. Goals should result from the mission and directly bring you closer to achieving it. An entity may set too many goals and there is a risk that its activities will be dispersed and the implementation of individual activities will not be directly related with the implementation of the mission, which is to be the primary value. After carefully defining the goals, the organization determines the stakeholders, beneficiaries and target group of its activities. Beneficiaries are the direct recipients of activities, they may overlap with the target group, which is the recipients of activities intended by the organization. And stakeholders are the broadest group. These are the people whom the project affects, both positively and negatively, even unintentionally. Determining these groups introduces the organization to creating an impact map at four levels: beneficiaries, local community, external relations and systemic change. Then, a list of indicators is created that will constitute the basis for demonstrating the change caused by the project. The final stage is to present the research results.

8. Conclusion

The selected methods for assessing the effectiveness of non-profit organizations presented above are only a proposal that can be expanded or narrowed according to the needs of the evaluators. Many other methods can be found in the literature on the subject. This proves that despite the fact that non-profit organizations are not intended to be commercially profitable, it is possible to assess the effectiveness of their activities. Unfortunately, observation of business practice shows that most third sector entities do not use them. There are several possible reasons for this situation. Conducting research exceeds the organization's capabilities, primarily in terms of:

- time - most of the organization's activists are volunteers who devote their free time to it and do not have the opportunity to spend additional hours conducting analyzes and collecting the necessary materials,
- financial - the financial resources of the third sector are limited, which is why organizations do not decide to outsource efficiency assessment to external entities,
- substantive requirements - the presented methods are difficult to perform correctly for people who do not have related education, complicated scientific descriptions do not encourage efforts, to try out the proposed tools.

Another factor that may influence non-profit organizations lack of analysis of their own achievements is the lack of pressure from the external environment to present such results. Social entities need social legitimacy, including social trust, to function regardless of the effectiveness and rationality of their activities (Majowska, 2012). However, such an assessment seems to be increasingly expected, both by aid beneficiaries and donors. It would likely contribute to both donors making more rational choices and organizations being able to improve their structure and operations. The review of methods for assessing the effectiveness of non-profit organizations presented in this article constitutes only exploratory research in the field of the discussed issues. Detailed examination of this topic still requires many scientific studies and sharing of experiences by organization members among themselves. This requires greater interest in the scientific world in non-profit organizations and their impact on society and the economy. Further studies and creation of solutions are necessary that will concern general aspects of the functioning of non-profit organizations. Particularly important are attempts to create a unified solution that allows assessing the effectiveness of both the organizations themselves and external entities that, for example, want to provide material support to non-profit organizations. Another possibility is to develop a training program for members of non-profit organizations, which would allow for a quick and understandable introduction to the use of efficiency measurement methods. The popularization of such knowledge would contribute to improving the quality of operation of many non-profit organizations and increase their self-awareness.

References

1. Adamiak, P., Charycka, B., Gumkowska, M. (2015). *Polskie organizacje pozarządowe*. Warszawa, p. 16.
2. Blicharz, J. (2012). *Administracja publiczna i społeczeństwo obywatelskie w państwie prawa*. Wrocław, p. 15.
3. Bogacz-Wotanowska, E. (2016). Istota i podstawowe zasady funkcjonowania organizacji pozarządowych. In: E. Bogacz-Wotanowska, S. Wrona (eds.), *Zarządzanie organizacjami pozarządowymi* (p. 13). Kraków.
4. Chrostowski, A., Kostera, M. (2011). Etnografia jako narzędzie diagnostyczne w procesie doradztwa naukowego. *Problemy zarządzania, nr 2*, Warszawa, pp. 33-34.
5. Ćwiklicki, M. (2014). Granice stosowania action research w naukach o zarządzaniu. In: M.J. Szymankiewicz, P. Kuźbik (eds.), *Zarządzanie organizacją z perspektywy metodologicznej. Wybrane zagadnienia* (pp. 133-134). Łódź.

6. Dyczkowski, T. (2016). Analiza dokonań OPP, prezentowanych w ich sprawozdaniach rocznych z wykorzystaniem metody drażenia tekstu. *Studia ekonomiczne. Zeszyty naukowe Uniwersytetu Ekonomicznego w Katowicach*, nr 274, Katowice, p. 58.
7. Hudson, M. (1997). *Bez zysków i strat. Sztuka kierowania organizacjami sektora pozarządowego*. Warszawa, p. 112.
8. Juraszek-Kopacz, B., Tyrowicz, J. (2008). *Zmierzyć niemierzalne, czyli o pomiarze oddziaływania społecznego*. Warszawa, p. 17.
9. Kafel, T. (2016). Zastosowanie metody participatory action research w diagnozowaniu organizacji pozarządowych. *Zeszyty Naukowe Uniwersytetu Ekonomicznego w Krakowie*, nr 7. Kraków, pp. 32-37.
10. Krzelowska, M. (2008). Sukces organizacji pożytku publicznego w świetle badań. *Trzeci sektor*, nr 13. Warszawa, pp. 68-75.
11. Kurleto, M.H. (2008). *Organizacje pozarządowe w działalności pożytku publicznego*. Warszawa, s. 93-94.
12. Majowska, M. (2012). W kierunku maksymalizacji efektywności organizacji - perspektywa uniwersalistyczna, sytuacyjna i instytucjonalna. *Prace naukowe Uniwersytetu Ekonomicznego we Wrocławiu*, nr 262. Wrocław, p. 222, 228.
13. Moroń, D., Klimowicz, M. (2016). Zastosowanie stopy społecznego zwrotu z inwestycji (SROI) jako wskaźnika mierzenia efektywności projektów społecznych. *Wrocławskie Studia Politologiczne*, nr 21. Wrocław, p. 78.
14. New Economics Foundation (2023). <https://www.nefconsulting.com/our-services/evaluation-impact-assessment/prove-and-improve-toolkits/prove-it/>, 17.11.2023.
15. Schimanek, T. (2015). Finansowanie organizacji pozarządowych w Polsce. Diagnoza. In: *System finansowania organizacji pozarządowych w Polsce*. Kraków.
16. Słownik Języka Polskiego (2023). <https://sjp.pwn.pl/>
17. Szymkiewicz, A., Plaskoń, J., Tabaczyńska, A. (1998). *Porządnie poza rządem*. Warszawa, p. 148.
18. Wasieła, W. (2013). Wartość dodana i potrzeby społeczne - związek skazany na porażkę? *Choice*, nr 7. Łódź, p. 20.